Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

November 1983

The U.S. economy is in transition. Although the recovery remains solidly based, its pace is shifting from the super-charged growth evident in the second and third quarters to a slower, but more sustainable, one. Real GNP is expected to slow significantly early next year and then grow at 5%-6% annualized rates in the second half of the year. Our forecast calls for a 4.7% rise in real GNP from the fourth quarter of 1983 to the fourth quarter of 1984, following a rise of 6.2% during the comparable 1982-1983 period.

The two prominent interest-sensitive sectors that led the recovery--housing and autos--are now beginning to level off. Housing starts began to revive well in advance of the recession's trough in November 1982. Housing starts rose from 0.87 million units (at an annual rate) in the fourth quarter of 1981 to 1.26 million units in the fourth quarter of 1982 and then to 1.79 million units in the third quarter of 1983. Certainly many of the people who purchased homes during 1983 had been waiting for a considerable period for a break in mortgage rates. From now on, however, the pent-up demand will provide much less support for housing starts. Without a further drop in mortgage rates, housing starts will likely remain on a plateau below the third-quarter level. Although new residential construction can take six to nine months from start to completion, the upward thrust to the economy diminishes as the level of starts holds steady.

The experience of auto sales has been similar to that of housing starts, except that the recovery has been less dramatic. Domestic auto sales totaled 5.0 million units (at an annual rate) in the fourth quarter of 1981 and 6.0 million units in the fourth quarter of 1982; since May of this year, they have hovered around 7.0 million units. With current rates of production in excess of sales, the automakers run a risk of having excessive inventories in the first quarter of 1984. The consequent attempt to bring inventories into line with sales would result in a decline in auto production and would be another factor leading to slower overall economic growth. In addition, more than a third of the real GNP growth in the first nine months of this recovery can be attributed to the shift from inventory liquidation to accumulation, which began in the third quarter. It would be highly unusual for the change in inventories to continue to account for such a large portion of real GNP growth once inventories are rising.

Economic growth will still be reasonably strong in the fourth quarter of this year--retail sales are expected to be excellent during this Christmas season--but the pace of economic activity will likely become subdued in the early part of 1984. We expect that such a development will allow the Federal Reserve to adopt a somewhat easier monetary stance. In view of the continuing weakness and financial strains in the economies of many of our trading partners, declines in U.S. interest rates would certainly be welcomed abroad. These declines would lead to further improvement in housing starts, auto sales, and the overall U.S. economy. As a result, we expect housing starts to total 1.80 million units next year, compared to 1.71 million units this year and 1.06 million units in 1982. Domestic auto sales are expected to total 7.4 million units next year, versus 6.8 million units this year and 5.8 million units in 1982.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual*							Forecast	Actual	Forecast	
	1983			1983				1984	1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	8.2	13.3	11.6	8.4	7.0	9.9	9.7	10.9	4.0	7.7	9.4
Real GNP	2.6	9.7	7.9	4.8	2.5	5.6	4.9	5.9	-1.9	3.4	5.1
GNP Price Deflator	5.5	3.3	3.4	3.6	4.4	4.1	4.6	4.7	6.0	4.2	4.1

	Actual	Forecast	Actual		Forecast
	1983:III	1983: IV	1981-1982	1982-1983	1983-1984
Consumer Spending	7.6%	10.3%	7.3%	8.5%	9.0%
Durable Goods	9.7	9.6	3.5	13.6	9.5
Nondurable Goods	9.9	11.0	3.7	6.3	7.6
Services	5.3	9.9	11.2	9.0	9.9
Business Capital Spending	15.2	11.5	-1.1	-1.3	11.8
Structures	10.1	7.9	6.4	-7.7	7.2
Equipment	18.6	13.7	-5.7	3.1	14.6
Residential Investment	44.2	5.2	-13.0	43.9	12.7
			1982	1983	1984
Change in Inventories	$11.8b.	$14.0b.	$-24.5b.	$-7.0b.	$15.0b.
Net Exports of Goods and Services	$-25.9b.	$-33.5b.	$17.4b.	$-12.7b.	$-26.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	11.2%	5.0%	9.0%	6.8%	7.2%
Federal	11.4	8.1	12.9	7.8	10.0
Defense	13.5	10.5	16.5	13.0	12.4
Other	6.1	1.6	5.4	-4.0	3.5
State & Local	11.1	3.0	6.6	6.2	5.4
Corporate Profits Before Tax	26.0F*	39.7*	-23.3	19.2	21.0
Corporate Profits After Tax	27.6F*	37.1*	-20.1	17.2	23.8
Plant and Equipment Expenditures	20.9F	15.4	-1.6	-4.1	10.5
Real Final Sales#	5.1	4.4	-0.7	2.9	4.5
Real Disposable Personal Income	6.7	4.3	0.5	3.0	4.4

Economic Indicators	Recent Data			Actual		Forecast
	July	Aug.	Sept.	1981-1982	1982-1983	1983-1984
Consumer Price Index**	4.8%	4.8%	6.0%	3.9%	3.9%	4.3%
Producer Price Index for Finished Goods**	1.2	4.8	1.2	3.5	1.4	4.3
Industrial Production	26.4	14.4	18.0	-8.2	6.6	9.3
Retail Sales##	0.4	-2.2	1.8	2.7	9.0	9.6
				1982	1983	1984
Auto Sales (millions of units, a.r.)	9.7	8.9	9.2	8.0	9.2	10.0
Housing Starts (millions of units, a.r.)	1.80	1.91	1.65	1.06	1.71	1.80
Unemployment Rate	9.5	9.5	9.3	9.7	9.6	8.2
Merchandise Trade Deficit (a.r.)	$76.3b.	$86.2b.	$69.7b.	$42.7b.	$71.0b.	$85.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

November 14, 1983

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

December 1983

This time last year, it was evident that the U.S. economy would be improving during 1983, but the extent of the recovery was underestimated. On all major fronts--real growth, inflation, and unemployment--the performance of the economy has been better than expected. Here's how the economy seems to be shaping up for 1984:

- Real growth will be moderate on average, with real GNP rising 4.7% from the fourth quarter of 1983 to the fourth quarter of 1984. Growth will be slow in the first half of the year, faster in the second half.

- Inflation will remain relatively low, near 4.0%-4.5%. Small increases in unit labor costs and stable oil prices will help restrain inflation, although rising food prices will put upward pressure on overall inflation rates during the latter part of the year.

- The unemployment rate will drop about another percentage point to 7.4% by the fourth quarter of next year.

- Interest rates will remain relatively stable for the time being and then decline during the spring if the economy slows as expected. Later in the year, cyclical pressures will lead to rising interest rates.

In broad terms, these projections characterize an economy behaving in a very normal manner for the second year of recovery. Recoveries that take off at a fast pace usually experience a slowing in real growth during their second year. The major forces that provided a powerful thrust in the initial stages of this recovery--the release of pent-up consumer demand, dramatic recoveries from depressed levels in housing and autos, and a sharp swing from inventory liquidation to accumulation--will not be evident in 1984. Despite the relative slowdown in overall growth next year, however, the consumer will still be in a comparatively favorable position. Real disposable personal income will continue to rise at an above-average pace, helped along by the personal income tax cuts and relatively low inflation. Currently, the large retail chains are having an excellent Christmas selling season and will thus be in a comfortable inventory position at the start of 1984.

The strength in consumer spending has been one of several factors responsible for 1983's record U.S. merchandise trade deficit. Many of today's hot sellers, from Cabbage Patch dolls to VCRs, are made abroad. Of course, the substantial appreciation of the dollar, which as of November 1983 was still 53.9% above the July 1980 level on a trade-weighted basis, has hurt the competitiveness of U.S. exports and given a pricing edge to imports. Continued economic weakness abroad and strains in LDC debt have hurt demand for U.S. capital goods and other exports in 1983 and will continue to affect exports adversely in 1984. Our forecast now calls for a record $104 billion merchandise trade deficit next year versus $73 billion this year and $43 billion in 1982. In sum, 1984 will likely turn out to be a generally favorable year for the U.S. economy, with moderate real growth, low inflation, a declining unemployment rate--but also a disturbingly large trade deficit.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1983			1983				1984	1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	8.2	13.3	11.2	8.6	7.0	7.9	10.7	12.0	4.0	7.7	9.1
Real GNP	2.6	9.7	7.7	5.1	2.5	3.5	5.9	6.9	-1.9	3.4	4.9
GNP Price Deflator	5.5	3.3	3.3	3.3	4.4	4.2	4.5	4.8	6.0	4.1	4.0

	Actual	Forecast	Actual	Forecast	
	1983:III	1983: IV	1981-1982	1982-1983	1983-1984
Consumer Spending	6.9%	10.1%	7.3%	8.4%	9.1%
Durable Goods	10.2	18.0	3.5	14.2	10.5
Nondurable Goods	7.8	8.3	3.7	5.9	7.4
Services	5.3	9.4	11.2	9.0	10.1
Business Capital Spending	16.9	13.6	-1.1	-1.0	12.7
Structures	8.5	12.5	6.4	-8.0	7.1
Equipment	22.2	14.0	-5.7	3.9	16.1
Residential Investment	41.1	5.2	-13.0	43.5	13.4
			1982	1983	1984
Change in Inventories	$8.7b.	$14.0b.	$-24.5b.	$-7.8b.	$14.0b.
Net Exports of Goods and Services	$-20.2b.	$-32.3b.	$17.4b.	$-11.0b.	$-42.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	9.7%	6.0%	9.0%	6.7%	7.6%
Federal	7.7	10.6	12.9	7.5	10.9
Defense	5.1	13.1	16.5	12.0	13.7
Other	15.2	4.2	5.4	-2.8	3.8
State & Local	11.0	3.0	6.6	6.2	5.4
Corporate Profits Before Tax	28.1*	40.8*	-23.3	20.0	19.7
Corporate Profits After Tax	21.8*	29.9*	-20.1	14.0	16.8
Plant and Equipment Expenditures	16.2	19.2	-1.6	-4.4	13.1
Real Final Sales#	5.1	4.6	-0.7	2.9	4.4
Real Disposable Personal Income	7.2	5.1	0.5	3.1	5.2

Economic Indicators	Recent Data			Actual	Forecast	
	Aug.	Sept.	Oct.	1981-1982	1982-1983	1983-1984
Consumer Price Index**	4.8%	6.0%	4.8%	3.9%	3.8%	4.3%
Producer Price Index for Finished Goods**	4.8	2.4	3.6	3.5	1.4	4.3
Industrial Production	15.6	16.8	9.6	-8.2	6.6	9.5
Retail Sales##	-1.7	1.4	1.4	2.7	9.1	10.0
				1982	1983	1984
Auto Sales (millions of units, a.r.)	8.9	9.2	9.8	8.0	9.1	10.0
Housing Starts (millions of units, a.r.)	1.90	1.67	1.61	1.06	1.71	1.80
Unemployment Rate	9.5	9.3	8.8	9.7	9.6	7.9
Merchandise Trade Deficit (a.r.)	$86.2b.	$69.7b.	$107.6b.	$42.7b.	$73.0b.	$104.0b.

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December 15, 1983

#GNP less change in inventories, both in real terms.
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$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

1/27/84

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Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

January 1984

The economic recovery will continue this year, but the gains in many areas will be less impressive than in 1983. Real GNP is expected to rise 4.7% from the fourth quarter of 1983 to the fourth quarter of 1984, following a comparable estimated rise of 5.9% last year. Growth will likely slow in the first half of the year, however, and then regain momentum in the second half.

One of the reasons for the expected slowing in real growth--a normal development in the second year of a business recovery--is that last year's postrecession surge in pent-up consumer demand will have diminished. In addition, many families' financial positions were substantially enhanced by the stock market rally beginning in August 1982. If history is any guide, however, increases in the broad market averages are not very impressive in the second year of an economic recovery. As a result, the boost to consumer spending from the stock market will likely be a much less important factor this year than it was in 1983.

One area that has already shown some signs of a slowdown is construction spending, which fell sharply in October and remained flat in November. (The figure for December will probably show a decline because of the unusually harsh weather, which may have been partly responsible as well for the surprisingly small month-to-month increase of 0.1% in December retail sales.) Housing starts in particular seem to have leveled off, bouncing around between 1.65-1.76 million units at an annual rate since last September. With mortgage rates relatively stable, starts are not likely to rise above this range for any sustained period and therefore will not contribute to GNP growth. If interest rates fall in the spring, however, as we expect, housing starts will improve shortly thereafter.

One of the most remarkable developments in this recovery has been the dramatic decline in the unemployment rate, which fell from 10.7% at the recession's trough in November 1982 to 8.2% last December. To put this decline into perspective, the comparable reduction in the unemployment rate in the 1975 recovery (which in most respects was unusually strong) was only nine-tenths of a percentage point. The gain in employment in the first 13 months of both recoveries was exactly the same: 3.8%. The discrepancy arises from the slower growth of the labor force--1.0% in this recovery versus a comparable increase of 2.8% in the 1975 recovery. This slower growth is the result of two factors: a <u>decline</u> in the teenage labor force (16-19 year-olds) and an unusually small rise in the adult female labor force participation rate.

The teenage population has been declining since 1979 and is projected to continue to decline until 1995, with the steepest declines in 1983 (3.1%) and 1984 (3.9%). Since the teenage unemployment rate is very high--currently 20.1%--declines in the teenage population pull down the overall unemployment rate. As a result, with a moderate 2.8% rise in employment expected during the second year of this recovery, the unemployment rate is <u>conservatively</u> estimated to fall to 7.4% by November, a full percentage point lower than a year earlier, versus a comparable decline of two-tenths of a percentage point in the 1975 recovery.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
	1983			1983	1984				1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	8.2	13.3	11.5	8.0	7.0	7.8	10.7	12.0	4.0	7.7	9.1
Real GNP	2.6	9.7	7.6	4.0	2.5	3.5	5.9	6.9	-1.9	3.3	4.7
GNP Price Deflator	5.5	3.3	3.6	3.9	4.4	4.2	4.5	4.8	6.0	4.2	4.1

	Actual	Forecast	Actual	Forecast	
	1983:III	1983: IV	1981-1982	1982-1983	1983-1984
Consumer Spending	6.5%	9.5%	7.3%	8.4%	8.9%
Durable Goods	7.6	18.1	3.5	13.9	10.6
Nondurable Goods	7.8	8.0	3.7	5.8	8.0
Services	5.3	8.6	11.2	8.9	9.2
Business Capital Spending	18.8	13.8	-1.1	-0.8	12.8
Structures	11.2	3.4	6.4	-7.8	7.3
Equipment	23.6	20.1	-5.7	4.0	16.1
Residential Investment	47.5	2.9	-13.0	44.2	13.7
			1982	1983	1984
Change in Inventories	$8.5b.	$14.0b.	$-24.5b.	$-7.9b.	$14.0b.
Net Exports of Goods and Services	$-18.3b.	$-30.3b.	$17.4b.	$-10.0b.	$-42.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	9.0%	5.6%	9.0%	6.5%	8.1%
Federal	6.6	8.8	12.9	7.2	11.5
Defense	3.6	18.7	16.5	12.2	13.8
Other	14.9	-14.3	5.4	-4.0	5.5
State & Local	10.7	3.6	6.6	6.1	5.8
Corporate Profits Before Tax	29.2*	42.1*	-23.3	20.6	19.9
Corporate Profits After Tax	23.7*	32.1*	-20.1	15.0	16.8
Plant and Equipment Expenditures	16.2	15.5	-1.6	-4.6	13.3
Real Final Sales#	5.1	3.3	-0.7	2.8	4.2
Real Disposable Personal Income	6.5	6.1	0.5	3.1	4.9

Economic Indicators	Recent Data			Actual	Forecast	
	Sept.	Oct.	Nov.	1981-1982	1982-1983	1983-1984
Consumer Price Index**	6.0%	4.8%	3.6%	3.9%	3.8%	4.3%
Producer Price Index for Finished Goods**	2.4	3.6	-2.4	3.5	0.6	4.3
Industrial Production	15.6	9.6	8.4	-8.2	6.4	9.6
Retail Sales##	1.4	1.7	1.1	2.7	9.0	9.0
				1982	1983	1984
Auto Sales (millions of units, a.r.)	9.2	9.8	9.5	8.0	9.2	10.0
Housing Starts (millions of units, a.r.)	1.66	1.65	1.76	1.06	1.72	1.80
Unemployment Rate	9.3	8.8	8.4	9.7	9.6	7.9
Merchandise Trade Deficit (a.r.)	$69.7b.	$107.6b.	$88.8b.	$42.7b.	$73.0b.	$104.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

January 13, 1984

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
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$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

2/22/84

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Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

February 1984

The economy is once again sending off mixed signals. Some indicators have suggested a slowing in the pace of economic activity, while others have shown remarkable buoyancy. In any case, the economy will advance at a more moderate pace this year compared to last year, but the extent of the slowdown will influence the direction of interest rates.

It has been observed here and elsewhere that the recovery is generally progressing quite normally. For example, real GNP rose 6.1% from the fourth quarter of 1982 to the fourth quarter of 1983, compared to an average rise of 6.2% during the first year of prior recoveries. Our forecast of a 4.7% rise in real GNP from the fourth quarter of last year to the fourth quarter of this year would keep real GNP growth roughly on track with prior recoveries. Economic growth rarely proceeds at a steady rate, however, and the economy has shown some hesitation of late.

Industrial production showed steady deceleration during the second half of 1983, from a month-to-month increase of 2.3% in July to a rise of 0.5% in December. January probably showed improvement in industrial production as well as other monthly indicators, but certain factors point to a potential slowdown in the first half of 1984.

Housing starts have been roughly flat for about six months now, and the effects of this leveling off are beginning to show. Production of construction supplies had one of the sharpest rebounds among the major components of industrial production, but it remained flat during the fourth quarter of last year as housing starts stabilized. In addition, the change in business inventories is providing less thrust to the economy now, while the enlargement of the merchandise trade deficit is acting as a heavy drag on economic growth. Nevertheless, consumer demand remains relatively strong. As an indication, domestic auto sales hit 8.4 million units at an annual rate in January, the highest level since 1979. This pattern shows that various sectors of the economy are pulling in opposite directions, and the relative strengths will determine the pace of overall economic growth.

In recent testimony before Congress, Mr. Volcker indicated that members of the Federal Open Market Committee generally felt that real GNP would rise at a 4%-4 3/4% rate during 1984, which would be consistent with our overall forecast and the Fed's monetary targets. If real GNP falls below this range for any extended period, presumably--this was not explicitly stated--the Fed would feel some pressure to allow rates to fall. Nevertheless, the emphasis seemed to be on preserving the progress in controlling inflation. From a practical perspective, the conclusion is that the interdependency between real growth and interest rate movements will be particularly close this year. Without any major surprises in inflation or velocity growth, if real growth comes in below 4%--as we expect in the first half of 1984--interest rates may fall somewhat. Growth in the range of 4%-4 3/4% is probably consistent with a "steady as she goes" monetary policy. Extended growth much above 5%, however, is a sign to watch out for potential rate increases.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual								Forecast	Actual	Forecast	
	1983	1984				1984			1985	1982-	1983-	1984-
	IV	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	8.6	7.0	7.8	10.7	12.0	8.8	8.1	10.2	10.6	7.7	9.2	9.7
Real GNP	4.5	2.5	3.5	5.9	6.9	3.4	2.5	4.0	4.0	3.3	4.8	4.3
GNP Price Deflator	3.9	4.4	4.2	4.5	4.8	5.2	5.5	6.0	6.3	4.2	4.1	5.2

	Actual	Forecast	Actual	Forecast	
	1983: IV	1984: I	1982-1983	1983-1984	1984-1985
Consumer Spending	9.9%	8.7%	8.4%	9.1%	9.7%
Durable Goods	18.7	12.5	14.0	11.8	7.6
Nondurable Goods	5.6	1.8	5.7	6.0	6.7
Services	10.9	13.1	9.1	10.8	12.4
Business Capital Spending	25.1	7.0	-0.2	14.1	14.6
Structures	11.5	1.5	-7.4	7.8	13.0
Equipment	33.7	10.0	4.8	17.9	15.4
Residential Investment	-1.8	-2.3	43.8	12.5	-1.4
			1983	1984	1985
Change in Inventories	$17.7b.	$14.0b.	$-6.9b.	$18.4b.	$32.0b.
Net Exports of Goods and Services	$-32.6b.	$-38.0b.	$-10.6b.	$-44.0b.	$-55.0b.
			1982-1983	1983-1984	1984-1985
Government Purchases	2.0%	9.0%	6.3%	7.0%	8.6%
Federal	-3.6	16.6	6.4	8.6	11.8
Defense	10.4	14.7	11.6	11.6	14.0
Other	-33.9	22.4	-5.5	0.8	5.0
State & Local	5.7	4.5	6.3	5.9	6.5
Corporate Profits Before Tax	30.8*	30.7*	17.9	17.3	10.0
Corporate Profits After Tax	22.4*	25.4*	12.6	14.1	10.0
Plant and Equipment Expenditures	24.1	6.9	-4.2	12.0	12.5
Real Final Sales#	3.5	3.0	2.8	4.2	3.9
Real Disposable Personal Income	7.5	2.6	3.2	5.0	4.3

Economic Indicators	Recent Data			Actual	Forecast	
	Oct.	Nov.	Dec.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	4.8%	3.6%	3.6%	3.8%	4.3%	5.5%
Producer Price Index for Finished Goods**	3.6	-2.4	2.4	0.6	4.3	4.9
Industrial Production	9.6	8.4	6.0	6.6	9.6	4.9
Retail Sales##	1.7	1.1	0.1	9.0	7.4	8.6
				1983	1984	1985
Auto Sales (millions of units, a.r.)	9.8	9.5	10.5	9.2	10.2	10.8
Housing Starts (millions of units, a.r.)	1.65	1.76	1.67	1.70	1.80	1.60
Unemployment Rate	8.8	8.4	8.2	9.6	7.6	6.8
Merchandise Trade Deficit (a.r.)	$107.6b.	$88.8b.	$75.6b.	$69.4b.	$104.0b.	$120.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

February 10, 1984

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Economic Outlook

3/22/84
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Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

March 1984

The economy is continuing to display strong upward momentum--too strong perhaps, judging from the nervousness evident in the financial markets. If real growth continues to parallel the average of prior recoveries, as has been the case to date, real growth will be somewhat less robust than last year's pace. So far this year, however, the surprises have mainly underscored the economy's resilience. Unfortunately, one development is occurring as anticipated: The U.S. merchandise trade deficit hit a record $113.6 billion at an annual rate in January and is well on its way to reaching an all-time high of more than $100 billion for the year.

Both the apparent slowing of the economy in December and the subsequent rebound in January were probably unrepresentative of the true strength of the economy, partly because of the distortions caused by unusually heavy snows in December. A few indicators already show continued buoyancy in February, however, although others will undoubtedly show less powerful growth than in January. Nevertheless, economic growth remains relatively strong. This performance is the result of many factors, but two related ones in particular--replacement demand and pent-up demand--seem to be unusually important in this recovery.

Each year, many new cars are bought to replace older cars that have to be scrapped. (The process is often indirect as used cars are exchanged among various buyers and sellers.) As high car prices, the recession, and shifting priorities have caused many people to nurse their old clunkers along to an unusual extent, the average age of cars on the road has been rising steadily since 1970, reaching an estimated 7.4 years old in 1983, the highest since 1950. As more and more cars become candidates for scrappage, new car sales benefit.

This potential replacement demand may seem irrelevant when interest rates are high and workers are being laid off, but its effects become quite visible in an economic recovery. The unusual <u>length</u> of the past downturn in autos, however--the most extended in the post-World War II period--is probably causing replacement demand to be an especially powerful and persistent force in this expansion. (Annual auto sales peaked in 1978 and did not reach bottom until 1982.) The release of this pent-up demand, arising from the need to replace retired vehicles and from normal population growth--the baby boomers are now prime customers for the car makers--may explain why car sales have remained so buoyant and will likely continue to be relatively strong. Auto sales are expected to total 10.6 million units this year versus 9.2 million in 1983.

The factors underpinning pent-up demand for appliances and housing starts are similar to those affecting autos, although replacement demand is a much smaller consideration in housing. Note, however, that if auto sales, appliance sales, housing starts, etc., remain near current high levels, real GNP growth will slow; economic growth depends on a pattern of <u>rising</u> sales. Moreover, the expanding merchandise trade deficit is partially offsetting growth in these areas and is acting as a damper on real GNP growth.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual						Forecast	Actual		Forecast
	1983	1984					1985	1982-	1983-	1984-
	IV	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	9.2	9.3	7.3	7.6	10.9	9.9	8.1	10.3	10.5	7.7	9.3	9.4
Real GNP	4.9	4.5	3.0	3.0	5.8	4.5	2.5	4.0	4.0	3.3	4.9	4.0
GNP Price Deflator	4.2	4.6	4.2	4.5	4.8	5.2	5.5	6.0	6.3	4.2	4.2	5.2

	Actual	Forecast	Actual		Forecast
	1983: IV	1984: I	1982-1983	1983-1984	1984-1985
Consumer Spending	8.7%	10.6%	8.3%	9.0%	9.4%
Durable Goods	22.3	27.0	14.2	15.5	7.4
Nondurable Goods	4.4	10.3	5.6	7.6	6.6
Services	8.6	6.6	8.9	8.3	12.1
Business Capital Spending	32.0	10.7	0.2	16.1	14.2
Structures	12.5	6.7	-7.3	8.8	12.5
Equipment	44.4	13.0	5.3	20.6	15.1
Residential Investment	0.0	0.6	43.9	11.7	-2.5
			1983	1984	1985
Change in Inventories	$10.5b.	$13.0b.	$-8.7b.	$17.4b.	$32.0b.
Net Exports of Goods and Services	$-18.7b.	$-32.0b.	$-7.1b.	$-42.0b.	$-55.0b.
			1982-1983	1983-1984	1984-1985
Government Purchases	1.5%	12.8%	6.3%	7.5%	8.6%
Federal	-3.5	26.0	6.4	9.8	11.6
Defense	9.9	20.9	11.6	12.4	14.0
Other	-32.9	42.2	-5.4	3.1	4.8
State & Local	4.9	4.9	6.2	6.0	6.5
Corporate Profits Before Tax	32.2*	36.1*	18.2	19.2	10.0
Corporate Profits After Tax	24.5*	30.3*	13.1	15.2	10.0
Plant and Equipment Expenditures	19.8	7.9	-4.4	12.7	12.5
Real Final Sales#	4.8	4.2	2.9	4.2	3.6
Real Disposable Personal Income	7.9	2.2	3.2	4.9	4.0

Economic Indicators	Recent Data			Actual	Forecast	
	Nov.	Dec.	Jan.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	3.6%	3.6%	7.2%	3.8%	4.3%	5.5%
Producer Price Index for Finished Goods**	-2.4	1.2	7.2	0.6	4.3	5.5
Industrial Production	3.6	7.2	13.2	6.5	9.8	4.8
Retail Sales##	1.2	0.1	2.2	9.1	9.6	8.6
				1983	1984	1985
Auto Sales (millions of units, a.r.)	9.5	10.5	11.2	9.2	10.6	10.8
Housing Starts (millions of units, a.r.)	1.73	1.67	1.92	1.70	1.80	1.60
Unemployment Rate	8.4	8.2	8.0	9.6	7.5	6.7
Merchandise Trade Deficit (a.r.)	$88.8b.	$75.6b.	$113.6b.	$69.4b.	$104.0b.	$120.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
$b. = billions a.r. = annual rate F = Forecast

*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

March 12, 1984

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Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

April 1984

The economy advanced at a rapid clip in early 1984, but preliminary evidence indicates that growth is already slowing. Until the Federal Reserve has positive proof that the economy has cooled off, however, it will probably not relax its restrictive stance, although further increases in rates will likely be limited. Real GNP should decelerate from an annualized rate of about 7% in the first quarter to 2.5%-3.5% in the second and third quarters, with somewhat stronger growth for a few quarters thereafter. This pattern would result in a rise in real GNP of 4.4% from the fourth quarter of 1983 to the fourth quarter of 1984, just slightly below the average increase in the second year of prior recoveries.

The Administration's "flash" forecast of 7.2% real GNP growth in the first quarter was based primarily on January and February data, but most of the strength was in January. Real personal consumption expenditures rose sharply in January but then fell in February. Domestic auto sales went from 7.8 million units at an annual rate in December to 8.4 in January, 8.5 in February, and then fell to 7.9 in March. This decline in auto sales combined with unfavorable weather conditions probably produced a decline in total retail sales in March (on a seasonally adjusted month-to-month basis) after remaining flat in February. Other signs of a slowdown in March include a slight rise in initial claims for unemployment compensation benefits and a decline in the average workweek for manufacturing employees.

The normal performance of the economy--and this recovery has been remarkably normal in many respects--is to grow rapidly for a 12-15 month period and then pause for a while as incomes, sales, production, and inventories move into better alignment. Although businesses have generally been managing inventories unusually carefully in this recovery, it is likely that some of the substantial buildup in inventories during the first quarter was undesired, a situation that would lead to smaller increases in production in the months ahead.

Despite the suggestions above that a slowdown will likely be evident in the second or third quarters, the irony is that from one perspective economic growth has been too good. The Fed is having to work hard to offset the effects of a stimulative fiscal policy and substantial pent-up demand for housing, autos, and capital goods. Not surprisingly, given the strong real GNP growth in the first quarter, the narrowly defined money supply M1 has been near the top of its target range for most of this year--that is, at least since early February, when revised data showed more rapid M1 growth in prior months than had been estimated earlier.

The recently released minutes of the Federal Open Market Committee meeting on January 30-31 clarify Fed leanings. The target range for M2 was lowered slightly, partly for technical reasons. Some members of the Committee also favored lowering the target range for M1. Such reductions, it is believed, would "help to underscore the Committee's commitment to an anti-inflationary policy." Nevertheless, once the economy slows in response to the restrictive policy stance, and the monetary aggregates move within a more acceptable portion of their target ranges, the Fed would have the flexibility to allow rates to drift lower. As a result, by the latter part of 1984, rates may well be back near where they were at the beginning of the year.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual	1984				Forecast				Actual	Forecast	
	1983 IV	I	II	III	IV	1985 I	II	III	IV	1982-1983	1983-1984	1984-1985
Gross National Product	9.1	11.7	7.8	7.1	9.5	9.9	8.2	10.3	10.6	7.7	9.8	9.1
Real GNP	5.0	7.0	3.5	2.5	4.5	4.5	2.5	4.0	4.0	3.4	5.5	3.7
GNP Price Deflator	3.9	4.4	4.2	4.5	4.8	5.2	5.5	6.0	6.3	4.2	4.1	5.2

	Actual	Forecast	Actual	Forecast	
	1983: IV	1984: I	1982-1983	1983-1984	1984-1985
Consumer Spending	9.4%	10.8%	8.3%	9.3%	9.0%
Durable Goods	24.2	27.0	14.3	15.8	7.2
Nondurable Goods	5.1	10.7	5.7	7.6	6.5
Services	9.1	6.8	8.9	8.9	11.4
Business Capital Spending	28.8	27.2	0.0	19.6	14.2
Structures	7.8	39.6	-7.6	15.2	12.5
Equipment	42.7	20.7	5.2	22.3	15.2
Residential Investment	-7.3	33.2	43.2	16.4	-1.8
			1983	1984	1985
Change in Inventories	$19.6b.	$30.0b.	$-6.4b.	$19.1b.	$29.0b.
Net Exports of Goods and Services	$-26.1b.	$-40.0b.	$-9.0b.	$-49.5b.	$-60.0b.
			1982-1983	1983-1984	1984-1985
Government Purchases	0.4%	5.1%	6.2%	7.2%	8.5%
Federal	-5.6	4.0	6.2	9.0	11.7
Defense	10.5	19.3	11.6	12.6	14.0
Other	-39.5	-33.6	-6.0	-0.8	4.7
State & Local	4.6	5.9	6.2	6.0	6.3
Corporate Profits Before Tax	36.2*	41.4*	19.1	18.7	10.0
Corporate Profits After Tax	25.9*	35.3*	13.5	15.1	10.0
Plant and Equipment Expenditures	19.9	18.5	-4.4	13.7	12.5
Real Final Sales#	3.7	5.7	2.8	4.8	3.5
Real Disposable Personal Income	8.0	6.3	3.2	4.8	3.4

Economic Indicators	Recent Data			Actual	Forecast	
	Dec.	Jan.	Feb.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	2.4%	7.2%	4.8%	3.8%	4.7%	5.4%
Producer Price Index for Finished Goods**	1.2	7.2	4.8	0.6	4.7	5.3
Industrial Production	6.0	14.4	14.4	6.5	10.2	4.7
Retail Sales##	0.5	3.8	-0.1	9.3	10.7	8.4
				1983	1984	1985
Auto Sales (millions of units, a.r.)	10.5	11.2	10.6	9.2	10.8	11.0
Housing Starts (millions of units, a.r.)	1.69	1.98	2.20	1.70	1.86	1.65
Unemployment Rate	8.2	8.0	7.8	9.6	7.5	6.7
Merchandise Trade Deficit (a.r.)	$80.8b.	$113.6b.	$121.1b.	$69.4b.	$112.5b.	$123.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

April 9, 1984

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.

*Year-over-year percent changes.
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$b. = billions a.r. = annual rate F = Forecast

B4750-24

Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

May 1984

On a number of occasions businessmen have asked me why economists put so much stress on real GNP. Isn't it really, they ask, mainly of academic interest, with little relationship to their companies' performance? Developments so far this year show that real GNP growth does indeed matter, particularly with regard to pressures on interest rates.

In testimony before Congress in February, Mr. Volcker indicated that the Board of Governors and Federal Reserve Bank presidents generally expected real GNP to rise 4% to 4 3/4% from the fourth quarter of 1983 to the fourth quarter of 1984. Of course, the Fed's formal targets are in terms of growth in the monetary and credit aggregates. The sharp rise in real GNP in the first quarter, however--8.3% at an annual rate--meant that real growth must slow considerably if the Fed's formal targets are to be met. As a result, the Fed is not likely to relax its restrictive stance until evidence of an economic slowdown is visible.

A slowing in real growth is likely even aside from the tightening actions taken by the Fed. A considerable portion of the first quarter's growth was the result of a large buildup in inventories, some of which was undoubtedly undesired. As firms attempt to keep inventories from getting too far out of line with sales, reordering will be held back, increases in production will be dampened somewhat, and real GNP growth will slow. These developments do not occur in one or two months--indeed, the April data are very strong--but forces leading to a slowdown have been set into motion. Moreover, since the auto industry apparently has capacity constraints on producing more large cars, GNP growth is currently not getting a boost from domestic auto sales, as it did in the first quarter.

Our forecast calls for real GNP growth of 3.2%, 2.5%, and 3.8% in the second, third, and fourth quarters, or 4.4% from the fourth quarter of 1983 to the fourth quarter of 1984--within the Fed's anticipated range. (This increase is roughly average compared to prior recoveries.) If this slowing in growth does materialize, the Fed would be able to allow interest rates to drift lower, perhaps by late summer.

Early warning signals of potential inflationary pressures have also caused the Fed to tighten. The capacity utilization rate has risen unusually rapidly in this recovery, while the drop in the unemployment rate has been unprecedented. Although M1 has moved into the lower portion of the Fed's target band, domestic nonfinancial debt has expanded at a rapid pace. The target for this credit variable is 8% to 11% from the fourth quarter of 1983 to the fourth quarter of 1984, but the annualized growth rate was 12.5% from November to February. With short-term credit demand still strong, partly as a result of the buildup in inventories, data yet to be released will likely show that credit expansion is still well above target. A more restrained rate of inventory accumulation may contribute to a slowing in credit expansion, but for the time being rapid growth in credit and strong economic performance seem to have convinced the Fed to brush up on its hardball game.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1984	1984			1985				1982-	1983-	1984-
	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	12.8	7.2	6.9	8.7	9.8	8.1	10.2	10.6	7.7	9.9	8.9
Real GNP	8.3	3.2	2.5	3.8	4.5	2.5	4.0	4.0	3.4	5.7	3.6
GNP Price Deflator	4.1	3.9	4.3	4.7	5.1	5.5	6.0	6.3	4.2	4.0	5.1

	Actual	Forecast	Actual	Forecast	
	1984: I	1984:II	1982-1983	1983-1984	1984-1985
Consumer Spending	9.2%	7.6%	8.3%	9.0%	9.1%
Durable Goods	16.6	5.4	14.3	14.7	7.3
Nondurable Goods	9.7	5.3	5.7	7.5	6.8
Services	6.9	9.9	8.9	8.6	11.3
Business Capital Spending	11.4	18.6	0.0	16.8	14.2
Structures	22.7	18.9	-7.6	13.8	12.1
Equipment	5.4	18.4	5.2	18.7	15.4
Residential Investment	32.4	16.2	43.2	16.9	-1.5
			1983	1984	1985
Change in Inventories	$62.2b.	$39.9b.	$-6.4b.	$38.5b.	$38.3b.
Net Exports of Goods and Services	$-45.2b.	$-50.0b.	$-9.0b.	$-53.1b.	$-62.0b.
			1982-1983	1983-1984	1984-1985
Government Purchases	6.8%	14.6%	6.2%	7.5%	8.5%
Federal	1.3	30.6	6.2	8.2	11.7
Defense	20.6	11.2	11.6	12.7	13.9
Other	-43.4	124.8	-6.0	-4.0	4.5
State & Local	10.5	5.2	6.2	7.1	6.3
Corporate Profits Before Tax	46.1*F	21.0*	19.1	20.4	10.0
Corporate Profits After Tax	39.8*F	18.0*	13.5	16.7	10.0
Plant and Equipment Expenditures	14.5F	12.0	-4.4	15.3	12.5
Real Final Sales#	3.6	6.0	2.8	4.5	3.7
Real Disposable Personal Income	10.2	3.4	3.2	6.2	3.5

Economic Indicators	Recent Data			Actual	Forecast	
	Jan.	Feb.	Mar.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	7.2%	4.8%	2.4%	3.8%	4.7%	5.4%
Producer Price Index for Finished Goods**	7.2	4.8	6.0	0.6	4.7	5.3
Industrial Production	16.8	12.0	4.8	6.5	11.0	5.1
Retail Sales##	4.1	-1.0	-2.0	9.3	10.9	8.4
				1983	1984	1985
Auto Sales (millions of units, a.r.)	11.2	10.6	10.0	9.2	10.8	11.0
Housing Starts (millions of units, a.r.)	1.98	2.23	1.64	1.70	1.85	1.65
Unemployment Rate	8.0	7.8	7.8	9.6	7.5	6.7
Merchandise Trade Deficit (a.r.)	$113.6b.	$121.1b.	$123.3b.	$69.4b.	$112.5b.	$123.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

May 11, 1984

#GNP less change in inventories, both in real terms.
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*Year-over-year percent changes.
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$b. = billions a.r. = annual rate F = Forecast

B1483-2

Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

June 1984

A few signs of a slowing in the economy helped spark a bond market mini-rally in early June, but many observers of the economy remain skeptical that the Federal Reserve will be able to pilot the economy to a soft landing. Our forecast places us in the optimistic camp, but the Fed will probably need all the skill--and luck--it can muster to maneuver through the turbulence.

The problem from the point of view of the financial markets is that the forward momentum of the economy has remained strong. During the first year of this recovery, the rise in real GNP (6.2% from the fourth quarter of 1982 to the fourth quarter of 1983) was exactly equal to the average of the comparable increases in four prior recoveries. With the substantial real growth in the first quarter of 1984, however, the current recovery moved ahead of the pack. If the increase in real GNP in the second quarter is 3.1% (at an annual rate) or greater, as is highly likely, the current recovery will be the strongest at this stage since the late 1950s. From such a perspective, it is no wonder that the Federal Reserve has become apprehensive about possible future inflationary pressures.

The recently released minutes of the Federal Open Market Committee meeting held in March show concern was expressed about persisting large federal deficits, exceptionally heavy credit demands, and rapidly rising levels of resource utilization. Implicit in the vague reference to the pending UAW contract negotiations with Ford and GM--the current contracts expire September 14--was the concern that past progress in containing inflation could be threatened by immoderate wage and benefit settlements. In addition, most of the reports on the economy's performance in April showed a sharp rebound from the weather-induced slowing in March, while domestic auto sales in May, at 8.6 million units at an annual rate, reached the highest level since 1979. The fiscal stimulus and pent-up demand for housing, autos, and capital goods have proved to be more powerful in supporting business expansion than the offsetting effects of monetary restraint.

The ideal solution--a soft landing--would be a significant slowing in economic growth without a recession or a sharp jump in interest rates. Increases in (real) interest rates do eventually curtail activity in certain sectors of the economy; but the timing and extent of the required rise in rates are not precise, especially with such relatively new developments as adjustable rate mortgages, which represented 60% of the mortgages closed in April. Nevertheless, some signs of weakness are evident. Sales of new single-family homes fell 4.9% in April from the March level; manufacturers' new orders, excluding defense, fell 1.0% in April; the average manufacturing workweek fell sharply in May; and the National Association of Purchasing Managers' survey indicated some softening of activity in May.

A slower rate of inventory accumulation after the first quarter's record increase will also help dampen real growth in the months ahead. Seemingly small differences in real growth, however, could prove important in the direction of Fed policy. So far, the Fed seems disposed to lean against the wind--with some (warranted) trepidation--until the economy cooperates and stops racing ahead.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1984	1984			1985				1982-	1983-	1984-
	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	12.8	7.6	6.9	8.3	9.8	8.1	10.3	9.7	7.7	9.9	8.8
Real GNP	8.8	3.8	2.5	3.4	4.5	2.5	4.0	3.2	3.4	5.9	3.5
GNP Price Deflator	3.7	3.7	4.3	4.7	5.1	5.5	6.0	6.3	4.2	3.8	5.1

	Actual	Forecast	Actual	Forecast	
	1984: I	1984: II	1982-1983	1983-1984	1984-1985
Consumer Spending	10.6%	8.3%	8.3%	9.3%	9.0%
Durable Goods	23.7	8.7	14.3	17.0	7.5
Nondurable Goods	9.2	6.8	5.7	7.5	6.8
Services	8.3	9.3	8.9	8.7	11.1
Business Capital Spending	11.6	18.7	0.0	16.7	14.1
Structures	19.9	19.0	-7.6	13.0	12.1
Equipment	7.2	18.5	5.2	19.1	15.2
Residential Investment	26.8	28.1	43.2	17.5	-2.4
			1983	1984	1985
Change in Inventories	$69.3b.	$48.8b.	$-6.4b.	$46.3b.	$44.8b.
Net Exports of Goods and Services	$-54.6b.	$-65.0b.	$-9.0b.	$-63.7b.	$-72.0b.
			1982-1983	1983-1984	1984-1985
Government Purchases	5.0%	15.5%	6.2%	7.1%	8.3%
Federal	-2.5	33.7	6.2	7.3	11.
Defense	14.1	11.1	11.6	11.1	13.9
Other	-41.9	144.1	-6.0	-3.0	4.6
State & Local	10.0	5.2	6.2	6.9	6.1
Corporate Profits Before Tax	41.8*	20.0*	19.1	19.6	10.0
Corporate Profits After Tax	37.2*	18.3*	13.5	17.2	10.0
Plant and Equipment Expenditures	14.5F	17.0	-4.4	14.9	12.5
Real Final Sales#	3.2	6.2	2.8	4.4	3.6
Real Disposable Personal Income	10.1	2.9	3.2	6.2	3.4

Economic Indicators	Recent Data			Actual	Forecast	
	Feb.	Mar.	Apr.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	4.8%	2.4%	6.0%	3.8%	4.7%	5.4%
Producer Price Index for Finished Goods**	4.8	6.0	0.0	0.6	4.7	5.3
Industrial Production	12.0	6.0	16.8	6.5	11.5	5.2
Retail Sales##	-0.8	-2.0	2.9	9.3	10.9	8.4
				1983	1984	1985
Auto Sales (millions of units, a.r.)	10.6	10.0	10.1	9.2	10.9	11.0
Housing Starts (millions of units, a.r.)	2.26	1.65	1.96	1.70	1.86	1.70
Unemployment Rate	7.8	7.8	7.8	9.6	7.5	6.
Merchandise Trade Deficit (a.r.)	$121.1b.	$123.2b.	$146.3b.	$69.4b.	$121.5b.	$131.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
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$b. = billions a.r. = annual rate F = Forecast

June 7, 1984

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Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

July 1984

Under most circumstances, the recent performance of the U.S. economy would be a policymaker's dream: rapid real growth, low inflation, and sharp reductions in the unemployment rate. Financial market participants and Federal Reserve officials, however, are focusing on indicators of potential inflationary pressures, and from this perspective some signs are disconcerting. For example, strong economic growth has brought the capacity utilization rate up to its long-term average, and continued robust growth, it is feared, would lead to inflationary capacity bottlenecks. These concerns will likely cause the Fed to maintain its existing degree of restraint, or perhaps even tighten a bit, until clear evidence of a slowing in the pace of economic activity is visible. Economic growth is likely to decelerate during the second half of 1984, but so far this year most of the economy's surprises have been on the side of strength rather than weakness.

Recent economic statistics present a mixed picture. Retail sales excluding autos showed moderate month-to-month increases of 0.4% in both May and June, while industrial production showed moderate increases of 0.4% in May and 0.5% in June. Another somewhat neutral variable now is initial claims for unemployment compensation benefits, which usually rise at the early stage of economic slowdowns, but instead have remained remarkably stable near the February-June average of 353,000 per week. As indications of the buoyancy of the economy, nonfarm payroll employment registered solid gains throughout the second quarter, and domestic auto sales remained strong in early July. Manufacturers' new nondefense orders, which as of May were only slightly above the February level, suggest a flattening in activity, while new home sales have declined steadily since February. All in all, these data indicate some tapering off in economic growth but no dramatic slowdown yet.

A slowing in real growth is likely later this year and early next year for several reasons. First, since (nonfarm) inventories rose at a substantial--and unsustainable--rate during the first half of this year, a slower rate of inventory accumulation will contribute to a diminution in real GNP growth. Second, current high interest rates will curtail demand in interest-sensitive sectors of the economy and related industries--such as home-building, construction materials, appliances, etc. --but with a considerable lag.

Part of the problem for the Fed in producing a slowing in the economy is that some rates--particularly consumer installment loan rates--are slow to react to increases in money market rates. For example, the rates on personal and new car loans at commercial banks were lower in May 1984 than in May 1983, despite increases in most other interest rates during the same period. As a result, the effects of restrictive actions by the Fed are often felt only after decisive moves maintained over extended periods. Of course, such policies run the risk of overstaying and producing a more substantial slowdown than desired. Our expectation is that the economy will soften but still avoid a recession through next year. The primary risk in this forecast, however, is not that the economy will soon become too weak, but that its forward momentum will continue to appear too strong.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1984	1984			1985				1982-	1983-	1984-
	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	14.0	8.7	7.0	7.6	7.0	8.6	10.1	8.8	7.7	10.4	8.0
Real GNP	9.7	5.7	3.2	3.0	2.2	4.0	4.7	3.0	3.4	6.5	3.4
GNP Price Deflator	3.9	2.8	3.7	4.5	4.7	4.4	5.2	5.6	4.2	3.6	4.5

	Actual	Forecast	Actual	Forecast	
	1984: I	1984: II	1982-1983	1983-1984	1984-1985
Consumer Spending	10.3%	10.2%	8.3%	9.6%	8.3%
Durable Goods	24.0	16.6	14.3	18.0	6.6
Nondurable Goods	9.1	9.4	5.7	8.2	6.4
Services	7.7	9.0	8.9	8.5	10.2
Business Capital Spending	13.1	18.6	0.0	17.3	14.1
Structures	22.0	18.9	-7.6	13.4	12.2
Equipment	8.4	18.4	5.2	19.8	15.2
Residential Investment	28.6	9.8	43.2	14.9	-2.0
			1983	1984	1985
Change in Inventories	$71.0b.	$51.5b.	$-6.4b.	$48.1b.	$40.0b.
Net Exports of Goods and Services	$-48.2b.	$-58.2b.	$-9.0b.	$-57.7b.	$-67.2b.
			1982-1983	1983-1984	1984-1985
Government Purchases	5.0%	16.7%	6.2%	7.3%	8.1%
Federal	-3.2	36.3	6.2	7.5	11.4
Defense	13.0	14.0	11.6	11.5	13.9
Other	-41.9	144.1	-6.1	-3.4	3.8
State & Local	10.6	5.5	6.2	7.1	5.9
Corporate Profits Before Tax	44.0*	23.0*	19.1	20.7	10.0
Corporate Profits After Tax	40.1*	22.1*	13.5	19.1	10.0
Plant and Equipment Expenditures	13.6	16.1	-4.8	14.4	12.5
Real Final Sales#	3.9	8.3	2.8	5.1	3.7
Real Disposable Personal Income	10.0	4.5	3.2	6.5	3.4

Economic Indicators	Recent Data			Actual	Forecast	
	Apr.	May	June	1982-1983	1983-1984	1984-1985
Consumer Price Index**	6.0%	2.4%	n.a.	3.8%	4.6%	5.3%
Producer Price Index for Finished Goods**	0.0	0.0	0.0	0.6	4.1	5.1
Industrial Production	10.8	4.8	6.0	6.5	11.0	4.9
Retail Sales##	3.5	0.5	0.8	9.3	11.7	8.4
				1983	1984	1985
Auto Sales (millions of units, a.r.)	10.1	11.1	11.0	9.2	10.9	11.0
Housing Starts (millions of units, a.r.)	1.99	1.78	n.a.	1.70	1.86	1.70
Unemployment Rate	7.8	7.5	7.1	9.6	7.5	6.7
Merchandise Trade Deficit (a.r.)	$146.3b.	$106.1b.	n.a.	$69.4b.	$129.5b.	$139.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

July 17, 1984

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December.

$b. = billions a.r. = annual rate F = Forecast

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Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

August 1984

In the upside-down world of the financial markets, recent signs of a slowing in the economy were welcome news that contributed to a significant stock market rally in late July and early August. Indications of a cooling in the economy, such as recent declines in leading indicators and consumer confidence, have become more numerous, but the evidence is far from conclusive. The 0.9% increase in industrial production in July from the June level, combined with the 0.9% increase in June (which was revised upward from a preliminary estimate of 0.5%), underscores the persistent strength of the economy. Real growth in the second half of this year is likely to be at a much slower, more sustainable pace than during the first half, while short-term interest rates will probably not show major changes in the months ahead. The economy is expected to continue to advance through 1985, with real GNP rising 6.0% from the fourth quarter of last year to the fourth quarter of this year and 3.4% from the fourth quarter of 1984 to the fourth quarter of 1985.

The current economic recovery, which began near the end of 1982, proved remarkably normal during its first year and was widely expected to continue on a normal path of more moderate growth during its second year. Instead, the economy raced ahead during the first half of this year, and recent data revisions now show even faster growth than originally reported. As a result, this recovery has now had the most rapid rebound in real GNP from its trough level since the expansion that began in late 1949. Clearly, this is no longer an average recovery. Fortunately (from the financial markets' point of view), forces now seem to be at work that will produce a slowdown in economic growth, but the extent of the slowdown will strongly influence the direction of interest rates.

The ratio of manufacturers' inventories to sales has risen steadily during 1984 and, while still at a seemingly low level, to some extent reflects an undesired buildup. As an indication of an imbalance, inventories of finished goods rose sharply in June following substantial increases in April and May, while inventories of raw materials fell slightly in June. This pattern suggests that manufacturers are trying to hold down purchases of raw materials, which are relatively controllable, until their inventories of final products begin to move more quickly.

U.S. manufacturers of home goods and apparel, whose products represent a key area of discretionary consumer spending, have already felt the slowdown. After a series of declines, their new orders in June were barely above last December's level, while the book value of their inventories had risen by a substantial 6.7% during the same period. The 0.9% decline in retail sales in July from the June level indicates that new orders will continue to be soft. The inevitable result will be restraints on output until inventories move into a more comfortable relationship with sales. Of course, any such generalizations invite exceptions, and the auto industry is a prime example now. Dealers' inventories are relatively lean, with some popular models in short supply. This is one area that could produce faster than expected overall economic growth. In sum, the evidence mounts that a slowdown is commencing, but it's still worth remembering--as the Fed certainly must--that most of the surprises this year have been on the side of strength.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
	1984				1985				1982-	1983-	1984-
	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	14.9	10.9	7.2	7.4	7.2	8.6	9.9	8.6	7.7	11.1	8.2
Real GNP	10.1	7.5	3.5	3.0	2.4	4.0	4.6	2.8	3.7	7.1	3.5
GNP Price Deflator	4.4	3.2	3.6	4.3	4.7	4.4	5.1	5.6	3.8	3.8	4.4

	Actual	Forecast	Actual	Forecast	
	1984: II	1984:III	1982-1983	1983-1984	1984-1985
Consumer Spending	9.1%	8.9%	8.6%	9.0%	8.0%
Durable Goods	10.4	10.1	14.2	15.2	7.4
Nondurable Goods	8.1	7.8	5.8	8.0	7.1
Services	9.5	9.4	9.4	8.2	8.8
Business Capital Spending	24.3	18.7	0.9	21.7	17.0
Structures	30.9	20.0	-8.7	19.3	16.6
Equipment	20.8	18.0	7.6	23.1	17.2
Residential Investment	15.1	-2.0	44.6	16.5	-1.7
			1983	1984	1985
Change in Inventories	$53.8b.	$39.0b.	$-13.5b.	$49.9b.	$32.3b.
Net Exports of Goods and Services	$-58.0b.	$-60.2b.	$-8.3b.	$-58.5b.	$-67.2b.
			1982-1983	1983-1984	1984-1985
Government Purchases	25.8%	7.2%	5.4%	8.8%	9.0%
Federal	56.5	11.1	4.2	10.4	13.8
Defense	15.7	12.8	11.7	12.0	13.3
Other	328.9	6.2	-12.7	5.4	15.4
State & Local	9.4	4.7	6.2	7.8	5.9
Corporate Profits Before Tax	27.6*F	12.9*F	22.8	24.6	11.5
Corporate Profits After Tax	26.9*F	11.4*F	21.6	23.0	11.5
Plant and Equipment Expenditures	20.0	16.0	-4.8	15.9	14.9
Real Final Sales#	10.4	5.1	3.2	5.5	4.2
Real Disposable Personal Income	8.6	5.9	3.5	6.6	3.5

Economic Indicators	Recent Data			Actual	Forecast	
	Apr.	May	June	1982-1983	1983-1984	1984-1985
Consumer Price Index**	5.9%	3.5%	3.9%	3.8%	4.5%	5.1%
Producer Price Index for Finished Goods**	-1.2	0.4	-1.2	0.6	4.1	5.1
Industrial Production	10.8	4.8	10.8	6.5	11.9	5.3
Retail Sales##	3.5	0.5	0.5	9.3	11.7	8.4
				1983	1984	1985
Auto Sales (millions of units, a.r.)	10.2	11.0	10.8	9.2	10.9	11.0
Housing Starts (millions of units, a.r.)	2.02	1.81	1.89	1.70	1.87	1.74
Unemployment Rate	7.8	7.5	7.1	9.6	7.5	6.7
Merchandise Trade Deficit (a.r.)	$146.3b.	$106.1b.	$106.9b.	$69.4b.	$129.5b.	$139.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

August 16, 1984

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
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$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

September 1984

The economy now seems to be headed toward a soft landing. A few months ago, the financial markets were concerned that rapid economic growth would continue relentlessly, forcing the Federal Reserve to tighten policy and risk recession sometime next year. Fortunately, recent economic developments indicate that a soft landing is likely. As evidence of the slowing in the pace of economic activity, nonauto retail sales fell sharply in July (on a month-to-month basis) and were flat in August, while housing starts dropped sharply in August to 1.54 million units, the lowest level since December 1982, when the recovery was just getting started. We expect real GNP to show an increase of 3.4% at an annual rate in the current quarter (compared to a steamy 10.1% increase in the first quarter), 3.7% in the fourth quarter, 2.5% in the first quarter of next year, and 3.6% for 1985 as a whole, with continued expansion throughout the year.

The slowing in economic growth, though welcomed by monetary policymakers, is not occurring in the most desirable manner: A significant portion of the deceleration in real GNP growth in the third quarter is due to the enlargement of the merchandise trade deficit. July's deficit was $168.7 billion at an annual rate, almost a quadrupling of the 1982 deficit. This horrendous deficit is probably unrepresentative of deficits in coming months, but it is likely that the deficits will remain relatively large. We estimate that the merchandise trade deficit will total $130 billion in 1984 and $139 billion in 1985.

Foremost among the various factors that account for the enlargement of the trade deficit is the appreciation of the dollar, which has risen 50% since July 1980, based on the Irving Trust Effective Dollar. The relative performance of unit labor costs illustrates the competitive difficulties a rising dollar imposes on U.S. manufacturers. Unit labor costs in the United States rose at a compound annual rate of 3.9% from 1980 to 1983. Measured in each nation's own currency, the comparable increases were 2.6% for Germany, 5.9% for the United Kingdom, and 10.5% for France. On a U.S. dollar basis, however, unit labor costs declined 8.4% per annum in Germany, 8.2% in the United Kingdom, and 9.3% in France. Such cost differentials make it difficult for U.S. manufacturers to compete against foreign products both at home and abroad. The need for U.S. manufacturers to remain competitive has encouraged many firms to invest heavily in the most advanced capital goods. This may partially explain the remarkable strength of business investment in this recovery, although--ironically--much of the equipment purchased is imported.

The deterioration of the U.S. balance on merchandise trade can also be attributed to the sluggish recoveries abroad, the difficulties less developed countries are experiencing servicing their substantial debt burdens, healthy gains in real disposable personal income in the U.S., and strong demand for items such as consumer electronics products (VCRs, etc.), many of which are simply not made in the U.S. The unbalanced nature of the worldwide recovery, however--strong growth in the U.S. and Japan, lackluster growth in Western Europe, and intense economic problems among many LDCs--indicates that this recovery may yet have an unusual amount of running room.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual		1984		Forecast				Actual	Forecast	
								1985	1982-	1983-	1984-
	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	14.9	10.7	6.5	7.8	7.1	8.7	9.7	8.4	7.7	11.0	8.1
Real GNP	10.1	7.1	3.4	3.7	2.5	4.1	4.3	2.6	3.7	7.0	3.6
GNP Price Deflator	4.4	3.3	3.0	4.0	4.5	4.4	5.1	5.6	3.8	3.7	4.3

	Actual	Forecast	Actual	Forecast	
	1984: II	1984:III	1982-1983	1983-1984	1984-1985
Consumer Spending	10.2%	5.3%	8.6%	8.8%	7.7%
Durable Goods	13.2	3.7	14.2	15.0	8.1
Nondurable Goods	8.3	1.2	5.8	7.2	6.4
Services	10.8	9.0	9.4	8.4	8.6
Business Capital Spending	24.0	22.2	0.9	21.9	17.2
Structures	23.8	24.0	-8.7	18.5	16.6
Equipment	23.7	21.2	7.6	23.9	17.5
Residential Investment	12.2	-2.0	44.6	15.9	-1.9
			1983	1984	1985
Change in Inventories	$50.6b.	$53.0b.	$-13.5b.	$55.9b.	$39.3b.
Net Exports of Goods and Services	$-58.7b.	$-74.0b.	$-8.3b.	$-63.6b.	$-73.3b.
			1982-1983	1983-1984	1984-1985
Government Purchases	24.3%	11.1%	5.4%	9.0%	9.4%
Federal	50.5	13.0	4.2	9.7	13.6
Defense	14.6	13.3	11.7	11.8	13.0
Other	278.5	12.0	-12.7	3.5	15.5
State & Local	10.1	9.8	6.2	8.6	6.6
Corporate Profits Before Tax	24.1*	8.2*	22.8	21.6	8.9
Corporate Profits After Tax	21.7*	5.3*	21.6	18.8	8.6
Plant and Equipment Expenditures	13.7	20.0	-4.8	15.3	14.2
Real Final Sales#	10.3	2.5	3.2	5.2	4.1
Real Disposable Personal Income	6.3	4.2	3.5	6.8	3.9

Economic Indicators	Recent Data			Actual	Forecast	
	June	July	Aug.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	2.4%	3.6%	6.0%	3.8%	4.6%	5.0%
Producer Price Index for Finished Goods**	0.0	3.6	-1.2	0.6	3.1	5.0
Industrial Production	10.8	10.8	2.4	6.5	11.4	5.6
Retail Sales##	1.0	-2.0	-0.8	9.3	9.9	7.8
				1983	1984	1985
Auto Sales (millions of units, a.r.)	10.8	10.6	10.0	9.2	10.7	10.7
Housing Starts (millions of units, a.r.)	1.88	1.76	1.54	1.70	1.78	1.66
Unemployment Rate	7.1	7.5	7.5	9.6	7.5	6.8
Merchandise Trade Deficit (a.r.)	$106.9b.	$168.7b.	n.a.	$69.4b.	$129.5b.	$139.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

$b. = billions a.r. = annual rate F = Forecast

Sept. 24, 1984

Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

October 1984

Now that the slowdown in the economy has materialized, what comes next? Observers of the economy are focusing primarily upon three possibilities:

1. Recent signs of weakness are portents of an imminent recession.

2. Recent data are distorted by strikes and other temporary factors. The economy will bounce back quickly, forcing the Federal Reserve to push up interest rates and flirt with recession later in 1985.

3. The slowdown will continue into early 1985 but will be temporary; the economy will grow without interruption throughout the year.

Our assessment is that the third possibility--a soft landing--is decidedly the most likely. The slowing in the economy has a fundamental basis and is not merely a reflection of transient aberrations. At the same time, the situation is not likely to deteriorate into a full-fledged recession within the next 15 months.

Signs of the slowdown have become numerous. Industrial production fell 0.6% in September from the August level, which was itself only a shade above the July level. Moreover, September's decline was not simply a reflection of the auto strike since materials production also fell. In addition, the gains in payroll employment have been diminishing for the past three months, while manufacturers' new orders in August showed virtually no growth from the first quarter's average. Although the index of leading economic indicators rose 0.5% in August, the index was still 2.4% below the peak in May and just about even with the January figure. In the past, such protracted weakness in this indicator would usually --but not always--be followed by a recession.

The slowdown partly reflects a mini-inventory cycle in progress. The origin of the problem occurred early this year, when retailers experienced substantial sales gains. For example, department stores' sales in February were 14.6% higher than the level a year earlier. Retailers built up inventories aggressively during the spring following this favorable sales performance, but their euphoria was ill-timed, as sales faltered during July and August. By August, the year-over-year sales gain at department stores was only 9.2%, while inventories had increased 19.7% during the same period. September showed considerable improvement in sales, however, as both department stores' sales and all nonauto retail sales rose by a healthy 1.7% on a month-to-month basis. Consumers may have taken a siesta during the summer, but there is scant evidence that they have gone into hibernation.

As retailers cut back on orders to their vendors, manufacturers' new orders turned sluggish, and production had to be curtailed as their own inventory/sales ratios increased. The cycle will take several more months to correct itself. In the meantime, the Fed has allowed rates to fall in response to the sluggish economic performance and the weakness in M1. Had the Fed pushed up rates relentlessly, the risk of an imminent recession would be considerable. Since the opposite is the case, however, it appears that announcements about the demise of the economic recovery are premature.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1984				1985				1982-	1983-	1984-
	I	II	III	IV	I	II	III	IV	1983	1984	1985
Gross National Product	14.9	10.7	6.5	7.8	7.1	8.7	9.7	8.4	7.7	11.0	8.1
Real GNP	10.1	7.1	3.4	3.7	2.5	4.1	4.3	2.6	3.7	7.0	3.6
GNP Price Deflator	4.4	3.3	3.0	4.0	4.5	4.4	5.1	5.6	3.8	3.7	4.3

	Actual	Forecast	Actual	Forecast	
	1984: II	1984:III	1982-1983	1983-1984	1984-1985
Consumer Spending	10.2%	5.3%	8.6%	8.8%	7.7%
Durable Goods	13.2	3.7	14.2	15.0	8.1
Nondurable Goods	8.3	1.2	5.8	7.2	6.4
Services	10.8	9.0	9.4	8.4	8.6
Business Capital Spending	24.0	22.2	0.9	21.9	17.2
Structures	23.8	24.0	-8.7	18.5	16.6
Equipment	23.7	21.2	7.6	23.9	17.5
Residential Investment	12.2	-2.0	44.6	15.9	-1.9
			1983	1984	1985
Change in Inventories	$50.6b.	$53.0b.	$-13.5b.	$55.9b.	$39.3b.
Net Exports of Goods and Services	$-58.7b.	$-74.0b.	$-8.3b.	$-63.6b.	$-73.3b.
			1982-1983	1983-1984	1984-1985
Government Purchases	24.3%	11.1%	5.4%	9.0%	9.4%
Federal	50.5	13.0	4.2	9.7	13.6
Defense	14.6	13.3	11.7	11.8	13.0
Other	278.5	12.0	-12.7	3.5	15.5
State & Local	10.1	9.8	6.2	8.6	6.6
Corporate Profits Before Tax	24.1*	8.2*	22.8	21.6	8.9
Corporate Profits After Tax	21.7*	5.3*	21.6	18.8	8.6
Plant and Equipment Expenditures	13.7	20.0	-4.8	15.3	14.2
Real Final Sales#	10.3	2.5	3.2	5.2	4.1
Real Disposable Personal Income	6.3	4.2	3.5	6.8	3.9

Economic Indicators	Recent Data			Actual	Forecast	
	July	Aug.	Sept.	1982-1983	1983-1984	1984-1985
Consumer Price Index**	3.6%	6.0%	n.a.	3.8%	4.6%	5.0%
Producer Price Index for Finished Goods**	3.6	-1.2	-2.4	0.6	2.5	5.0
Industrial Production	10.9	1.4	-7.2	6.5	11.4	5.6
Retail Sales##	-1.7	-0.6	1.6	9.3	10.2	7.8
				1983	1984	1985
Auto Sales (millions of units, a.r.)	10.6	10.0	10.3	9.2	10.7	10.7
Housing Starts (millions of units, a.r.)	1.75	1.54	1.68	1.70	1.79	1.66
Unemployment Rate	7.5	7.5	7.4	9.6	7.5	6.8
Merchandise Trade Deficit (a.r.)	$168.7b.	$118.3b.	n.a.	$69.4b.	$129.5b.	$139.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

$b. = billions a.r. = annual rate F = Forecast

Oct. 18, 1984